

# AUDITED FINANCIAL STATEMENTS

## CONSOLIDATED PROFIT AND LOSS ACCOUNT Year ended 31 December 2003

	Notes	2003 HK\$'000	2002 (Restated) HK\$'000
Turnover	4	1,279,996	1,364,925
Other revenue	4	4,091	8,739
Staff costs	5	(368,799)	(417,177)
Cost of production materials/sales		(410,416)	(427,582)
Rental and utilities		(83,456)	(97,973)
Depreciation and amortisation	5	(83,261)	(78,996)
Advertising and promotion		(15,259)	(31,465)
Other operating expenses		(153,117)	(133,979)
		<b>(1,110,217)</b>	<b>(1,178,433)</b>
Deficit on revaluation of investment properties		(112,046)	(75,061)
Loss on disposal of investments in associates		(2,612)	–
Loss on disposal of long-term investment shares		(2,267)	–
Provision for asset impairment		(780)	–
Gain on disposal of subsidiaries		600	25,136
		<b>(117,105)</b>	<b>(49,925)</b>
Profit from Operating Activities	5	52,674	136,567
Finance costs	6	(5,194)	(1,097)
Operating Profit		47,480	135,470
Share of profits less losses of associates		3,981	4,952
Share of loss of a jointly controlled entity		(4,048)	(5,624)
Profit before Taxation		47,413	134,798
Taxation	8 & 2(b)(iv)	(41,674)	(22,654)
Profit after Taxation		5,739	112,144
Minority interests	2(b)(iv)	(3,977)	(3,378)
Profit Attributable to Shareholders	9, 25 & 2(b)(iv)	1,762	108,766
Dividend Distributions	10	93,657	124,876
Earnings per share	11		
Basic		0.11 cents	6.38 cents
Diluted		N/A	N/A

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**Year ended 31 December 2003**

	Notes	2003 HK\$'000	2002 (Restated) HK\$'000
At 1 January			
As previously stated		1,537,245	2,150,075
Changes in accounting policies	25	(8,491)	(14,718)
As restated		1,528,754	2,135,357
Surplus/(deficit) on revaluation of long-term investment shares	25	29,796	(23,091)
Deferred taxation directly credited to reserve	25	–	8
Exchange differences on consolidation	25	2,416	(463)
Net gains/(losses) not recognised in the profit and loss account		32,212	(23,546)
Net profit for the year	25	1,762	108,766
Investment revaluation reserve released on disposal	25	(1,212)	6
Translation reserve released on disposal	25	2,165	–
Dividends			
2003 interim dividend distribution	25	(31,219)	–
2002 final dividend distribution	25	(62,438)	–
2002 interim dividend distribution	25	–	(62,438)
Repurchase of shares			
Contributed surplus	25	–	(607,034)
Share capital	24	–	(17,343)
Share premium	25	–	(5,014)
		(90,942)	(583,057)
At 31 December		1,470,024	1,528,754

**CONSOLIDATED BALANCE SHEET**

As at 31 December 2003

	Notes	2003 HK\$'000	2002 (Restated) HK\$'000
<b>Non-Current Assets</b>			
Intangible assets	13	33,172	14,130
Fixed assets	14	1,347,348	1,507,475
Defined benefit plan's assets	23(a)	27,070	37,858
Interests in associates	16	37,425	41,875
Interest in a jointly controlled entity	16	7,527	9,375
Long-term investment shares	17	128,320	128,523
		<b>1,580,862</b>	1,739,236
<b>Current Assets</b>			
Inventories	18	40,618	43,172
Accounts receivable	19	162,182	155,326
Prepayments, deposits and other receivables		42,994	49,146
Bank balances and deposits		159,804	138,992
		<b>405,598</b>	386,636
<b>Current Liabilities</b>			
Accounts payable and accrued liabilities	20	148,292	169,533
Taxation payable		5,817	1,360
Subscriptions in advance		22,931	16,285
Bank overdraft, secured		2,814	–
		<b>179,854</b>	187,178
Net Current Assets		<b>225,744</b>	199,458
Total Assets Less Current Liabilities		<b>1,806,606</b>	1,938,694
<b>Non-Current Liabilities</b>			
Minority interests	2(b)(iii)	9,677	8,692
Interest-bearing bank loan, unsecured	21	230,000	310,000
Deferred taxation	22 & 2(b)(iii)	96,905	91,248
		<b>336,582</b>	409,940
		<b>1,470,024</b>	1,528,754
<b>Capital and Reserves</b>			
Share capital	24	156,095	156,095
Reserves		1,251,491	1,310,221
Proposed final dividend distribution		62,438	62,438
	25	1,313,929	1,372,659
		<b>1,470,024</b>	1,528,754

**Kuok Khoon Ean**  
Chairman

**Peter Lee Ting Chang**  
Director

**CONSOLIDATED CASH FLOW STATEMENT**  
**Year ended 31 December 2003**

	Notes	2003 HK\$'000	2002 HK\$'000
Net cash inflow from operations	29(a)	249,944	290,802
Interest paid		(5,194)	(1,097)
Hong Kong profits tax paid		(29,927)	(33,810)
Overseas tax paid		(231)	–
<b>Net cash inflow from operating activities</b>		<b>214,592</b>	<b>255,895</b>
<b>Investing Activities</b>			
Additions to fixed & intangible assets		(58,483)	(61,740)
Interest received		1,543	4,958
Dividends received from:			
Listed investments		1,231	2,462
Associates		2,306	7,171
Purchase of additional interests in associates		–	(42)
Purchase of additional interests in subsidiaries		–	(269)
Purchase of a subsidiary	29(d)	(1,687)	–
Purchase of long-term investment shares		–	(129)
Proceeds from disposals of subsidiaries	29(c)	3,051	31,724
Proceeds from disposals of interests in associates		5,564	–
Proceeds from disposals of fixed assets		602	115
Proceeds from disposals of long-term investment shares		25,936	1
Decrease in bank deposits with maturity more than three months		–	1,323
<b>Net cash outflow from investing activities</b>		<b>(19,937)</b>	<b>(14,426)</b>
<b>Net cash inflow before financing activities</b>		<b>194,655</b>	<b>241,469</b>
<b>Financing Activities</b>	29(b)		
Repurchase of shares		–	(629,391)
(Repayment)/drawdown of bank loan		(80,000)	310,000
Dividends paid to minority shareholder in a subsidiary		(3,000)	(3,000)
Dividends paid		(93,657)	(62,438)
<b>Net cash outflow from financing activities</b>		<b>(176,657)</b>	<b>(384,829)</b>
<b>Increase/(decrease) in cash and cash equivalents</b>		<b>17,998</b>	<b>(143,360)</b>
<b>Cash and cash equivalents at 1 January</b>		<b>138,992</b>	<b>282,352</b>
<b>Cash and cash equivalents at 31 December</b>		<b>156,990</b>	<b>138,992</b>
<b>Analysis of cash and cash equivalents</b>			
Bank balances and deposits		159,804	138,992
Bank overdraft		(2,814)	–
		<b>156,990</b>	<b>138,992</b>

**BALANCE SHEET**

As at 31 December 2003

	Notes	2003 HK\$'000	2002 HK\$'000
Non-Current Assets			
Interests in subsidiaries	15	1,656,265	1,749,922
Current Assets			
Bank balances and deposits		254	254
<b>Total Assets</b>		<b>1,656,519</b>	<b>1,750,176</b>
Capital and Reserves			
Share capital	24	156,095	156,095
Reserves		1,437,986	1,531,643
Proposed final dividend distribution		62,438	62,438
	25	1,500,424	1,594,081
		<b>1,656,519</b>	<b>1,750,176</b>

**Kuok Khoon Ean**  
Chairman

**Peter Lee Ting Chang**  
Director

## NOTES TO THE FINANCIAL STATEMENTS

### 1. Corporate Information

The registered office of SCMP Group Limited is located at Canon's Court, 22 Victoria Street, Hamilton, HM12 Bermuda.

The Company acted as an investment holding company during the year. The principal activities of the Group during the year comprised the publishing, printing, and distribution of the *South China Morning Post*, *Sunday Morning Post* and other print and on-line publications, retailing, video and film post-production and holding of properties for rental income purposes.

### 2. Restatement of the Group's Consolidated Balance Sheet and Profit and Loss Account for the Year Ended 31 December 2002

Owing to the adoption of a revised Statement of Standard Accounting Practice ("SSAP") issued by the Hong Kong Society of Accountants ("HKSA") in the current reporting period as stated in note 3(a), certain figures have been restated. The changes are set out below:

#### (a) Deferred taxation

Up to the year ended 31 December 2002, deferred taxation was provided, using liability method, on all significant timing differences to the extent it is probable that liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond doubt.

Commencing from 1 January 2003, the Group has adopted SSAP 12 (revised) "Income Taxes" whereby deferred taxation is provided for in full, using liability method, on temporary difference arising between tax bases of assets and liabilities (i.e. amounts attributed to those assets and liabilities for taxation purposes) and their carrying value in the accounts.

The adoption of SSAP 12 (revised) represents a change in accounting policy which has retrospective effect and the changes are set out below:

Changes to the consolidated balance sheet as at 31 December 2002 are:

- (i) Retained profits were decreased by HK\$8,313,000
- (ii) Asset revaluation reserve was decreased by HK\$178,000
- (iii) Net assets were decreased by HK\$8,491,000

Changes to the consolidated profit and loss account for the year ended 31 December 2002 are:

- (iv) Taxation was decreased by HK\$6,230,000
- (v) Minority interest was increased by HK\$11,000

#### (b) Summary of restatements to the Group's consolidated balance sheet and profit and loss account for the year ended 31 December 2002:

- (i) Retained profits as at 31 December 2002

	Note	HK\$'000
As previously reported		117,959
SSAP12 (revised) adjustment	2(a)(i)	(8,313)
As restated		109,646

## (ii) Asset revaluation reserve as at 31 December 2002

	Note	HK\$'000
As previously reported		1,503
SSAP12 (revised) adjustment	2(a)(ii)	(178)
As restated		1,325

## (iii) Net assets as at 31 December 2002

	Note	Deferred taxation HK\$'000	Minority interests HK\$'000	Total HK\$'000
As previously reported		(82,770)	(8,679)	(91,449)
SSAP12 (revised) adjustment	2(a)(iii)	(8,478)	(13)	(8,491)
As restated		(91,248)	(8,692)	(99,940)

## (iv) Profit attributable to shareholders for the year ended 31 December 2002

	Note	Taxation HK\$'000	Minority interests HK\$'000	Profit attributable to shareholders HK\$'000
As previously reported		(28,884)	(3,367)	102,547
SSAP12 (revised) adjustment	2(a)(iv) & (v)	6,230	(11)	6,219
As restated		(22,654)	(3,378)	108,766

### 3. Summary of Significant Accounting Policies

#### (a) Basis of preparation

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the HKSA. They have been prepared under the historical cost convention, except for the re-measurement of investment properties, and certain fixed assets and long-term investment shares, as further explained below.

In the current year, the Group adopted SSAP12 (revised) issued by HKSA which is effective for accounting periods commencing on or after 1 January 2003.

The comparatives have been adjusted or extended to take into account the requirements of the new accounting standard. The effect of adopting SSAP 12 (revised) is set out in the accounting policies below.

#### (b) Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2003. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The gain or loss on disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any unamortised goodwill or goodwill taken to reserves which was not previously charged or recognised in the consolidated profit and loss account.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

**(c) Goodwill**

Goodwill arising on the acquisition of subsidiaries, associates and jointly controlled entities represents the excess of purchase consideration paid over the fair values ascribed to the identifiable assets and liabilities acquired.

Goodwill is included in intangible assets and is stated in the balance sheet at cost less accumulated amortisation and provision for impairment in value, if any. Goodwill is amortised on a straight-line basis over an estimated useful life, but not exceeding 20 years. Provision for impairment on any excess of the carrying amount of the goodwill over its estimated recoverable amount is expensed in the profit and loss account in the year in which the impairment occurs.

**(d) Revenue recognition**

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (i) on the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (ii) newspaper advertisements and other services, based on the period in which such services are rendered;
- (iii) rental income, in the period in which the properties are let out and on the straight-line basis over the lease terms;
- (iv) interest income, on a time proportion basis taking into account the principal amounts outstanding and the effective interest rates applicable; and
- (v) dividends, when the shareholder's right to receive payment is established.

**(e) Subsidiaries**

A subsidiary is a company other than a jointly controlled entity in which the Company, directly or indirectly, controls more than half of its voting power or holds more than half of the issued share capital or controls the composition of its board of directors or has the power to govern its financial and operating policies so as to obtain benefits from its activities.

Interests in subsidiaries in the Company's balance sheet are stated at cost less provision for impairment losses which are deemed necessary by the directors. The results of subsidiaries are accounted for by the Company on the basis of dividend received or receivable.

**(f) Associates**

An associate is a company, not being a subsidiary or a joint venture, in which the Group has a long-term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence in its management. The Group's share of the post-acquisition results and reserves of associates is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting less any provisions for impairment in value which are deemed necessary by the Directors.

**(g) Jointly controlled entities**

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity.

Joint venture arrangements which involve the establishment of a separate entity in which the Group and other parties have an interest are referred to as jointly controlled entities. A jointly controlled entity is a joint venture which involves the establishment of a corporation, partnership or other entity in which each venturer has an interest. The jointly controlled entity operates in the same way as other enterprises, except that a contractual arrangement between the venturers establishes joint control over the economic activity of the entity.

The Group's share of the post acquisition results and reserves of the jointly controlled entity is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in a jointly controlled entity are stated in the consolidated balance sheet at the Group's share of net assets of the jointly controlled entity under the equity method of accounting less any provisions for impairment in value which are deemed necessary by the Directors.



**(h) Intangible assets****(i) Publishing titles**

Publishing titles are stated at cost less accumulated amortisation and provision for impairment in value, if any. The Group's publishing titles are amortised on a straight-line basis over ten years, taking into account the rapid change in the business environment and other factors.

**(ii) Software cost**

Software costs are stated at cost less accumulated amortisation. Software cost comprises purchase price and any costs incurred to bring the asset in use. Software costs are amortised on a straight-line basis over their estimated useful lives. Other software costs that do not meet the above criteria are accounted for in the profit and loss account in the period incurred.

**(i) Investment properties**

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are intended to be held on a long term basis for their investment potential.

Investment properties held under leases with unexpired periods of 20 years or less are depreciated over the unexpired terms of the leases.

Investment properties held under leases with unexpired periods greater than 20 years are stated at open market values on the basis of annual professional valuations performed at the end of each financial year. Changes in the values of investment properties are dealt with as movements in the investment property revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on a portfolio basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged.

On disposal of an investment property, the relevant portion of the investment property revaluation reserve realised in respect of previous valuations is released to the profit and loss account.

**(j) Fixed assets and depreciation**

Fixed assets, other than investment properties and assets in progress, are stated at cost or valuation less accumulated depreciation and accumulated impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

Surpluses arising from the revaluation of fixed assets are dealt with in the asset revaluation reserve. Revaluation deficits are charged to the profit and loss account to the extent that they exceed surpluses arising previously on the individual assets. A subsequent revaluation increase is recognised as income to the extent that it reverses a revaluation deficit of the same asset previously charged to the profit and loss account.

Depreciation is provided on the straight-line method over the following estimated useful lives:

Land	Over the lease term
Buildings	25 to 50 years
Other fixed assets	2 to 20 years

No depreciation/amortisation is provided for assets in progress.

**(k) Impairment and gain or loss on sale**

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that assets included in land and buildings and other fixed assets are impaired. If any such indication exists, the recoverable amount of the assets is estimated and where relevant, an impairment loss is recognised to reduce the assets to its recoverable amount. Such impairment losses are recognised in the profit and loss account except where the assets is carried at valuation and the impairment loss does not exceed the revaluation surplus for that same assets, in which case it is treated as a revaluation decrease.

The gain or loss on disposal of a fixed asset other than investment properties is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account. Any revaluation reserve balance remaining attributable to the relevant asset is transferred to retained earnings and is shown as a movement in reserves.

**(l) Long-term investment shares**

Long-term investment shares, which represent share investments not held for trading purposes, are carried at their fair values. The unrealised gain or loss so arising is recognised directly in equity, as a movement in the investment revaluation reserve, until the investment is sold or otherwise disposed of, or until the investment is determined to be impaired, as deemed necessary by the Directors, at which time the cumulative unrealised gain or loss is included in the net profit or loss for the year.

**(m) Inventories**

Inventories are stated at the lower of cost and net realisable value after making due allowance for any obsolete or slow-moving items. Costs of inventories are stated at weighted average cost and in the case of work in progress and finished goods, comprise direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

**(n) Deferred taxation**

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts.

Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

In prior year, deferred taxation was accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset was expected to be payable or recoverable in the foreseeable future. The adoption of the SSAP 12 (revised) represents a change in accounting policy, which has been applied retrospectively so that the comparatives presented have been restated to conform to the changed policy.

As detailed in note 25 to the accounts, opening retained earnings at 1 January 2002 and 2003 have been reduced by HK\$14,532,000 and HK\$8,313,000 respectively, which represent the addition net deferred tax liabilities required by the SSAP 12 (revised). This change has resulted in an increase in deferred tax liabilities and minority interests by HK\$8,478,000 and HK\$13,000 respectively, and the reduction in asset revaluation reserve by HK\$178,000 as at 31 December 2002. The profit for the year ended 31 December 2002 has been increased by HK\$6,219,000.

**(o) Foreign currencies**

The Group's financial records are maintained and the financial statements are stated in Hong Kong dollars.

Foreign currency transactions are recorded at the applicable rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable market rates of exchange ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of subsidiaries, jointly controlled entities and associates denominated in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the profit and loss is translated at an average rate. The resulting translation differences are included in the translation reserve.

**(p) Operating leases**

Leases where substantially all the rewards and risks of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the profit and loss account on a straight-line basis over the lease periods.

**(q) Employee benefits****(i) Employee leave entitlements**

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

**(ii) Employee retirement schemes**

The Group operates four staff retirement schemes comprising a defined benefit pension (“DB”) scheme, a defined contribution pension (“DC”) scheme, a Mandatory Provident Fund (“MPF”) and a Top-up (“Top-up”) scheme for its employees. The assets of which are held separately from those of the Group in independently administered funds. The retirement schemes are generally funded by payments from employees and by the relevant Group companies.

Contributions to the DC, MPF and Top-up schemes are charged to the profit and loss account as incurred and the DC and Top-up schemes may be reduced by contributions forfeited by employees who leave these schemes prior to vesting fully in the contributions.

The Group’s contributions to the DB scheme are made based on the periodic recommendations of independent qualified actuaries. Pension costs are assessed using the projected unit credit method: the cost of providing pensions is charged to the profit and loss account so as to spread the regular cost over the service lives of employees in accordance with the advice of the actuaries who carry out a full valuation of the plans. The pension obligation is measured as the present value of the estimated future cash outflows by reference to market yields of Government securities which has similar terms as the related liabilities. Actuarial gains and losses are recognised over the average remaining service lives of employees. Past service costs are recognised as an expense on a straight-line basis over the average period until the benefits become vested.

**(iii) Equity compensation benefits**

The Company has a share option scheme which is a part of remuneration policy with rewards determined based upon the performance of the Group and individual employees. When options are granted, no compensation cost is recognised. When the options are exercised, the proceeds received net of any transaction costs are credited to share capital (nominal value) and share premium.

**(r) Accounts receivable**

Provision is made against accounts receivable to the extent they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

**(s) Cash equivalents**

For the purpose of the consolidated cash flow statement, cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance. For the purpose of balance sheet classification, cash equivalents represent assets similar in nature to cash, which are not restricted as to use.

**(t) Provisions and contingent liabilities**

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, and it is possible that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made.

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

**(u) Segment reporting**

In accordance with the Group’s internal financial reporting the Group has determined that business segments be presented as the primary reporting format and geographical segments as secondary reporting format. No geographical reporting format is presented as the substantial businesses are based in Hong Kong.

Segment assets consist primarily of long-term investment shares, defined benefit plan's assets, intangible assets, fixed assets, inventories, receivables and operating cash. Segment liabilities comprise operating liabilities and exclude items such as taxation, deferred taxation, minority interests and bank borrowing. Capital expenditure mainly comprises additions to intangible assets (note 13) and fixed assets (note 14).

**(v) Related parties**

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party, or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

**4. Turnover, Revenue and Segment Information**

Turnover comprises the aggregate of advertising, circulation and distribution income of newspapers and other publications, the net invoiced amount in respect of goods sold and services rendered and gross rental income.

An analysis of Group's turnover and other revenue for the year is as follows:

	2003 HK\$'000	2002 HK\$'000
Turnover		
Newspapers, magazines and other publications	773,830	831,775
Retailing	398,620	418,641
Investment properties	81,401	79,747
Video and film post-production	20,208	19,493
Entertainment and education services	5,937	15,269
	<b>1,279,996</b>	1,364,925
Other revenue		
Dividend income from listed investments	1,427	2,462
Interest income	1,543	4,958
Others	1,121	1,319
	<b>4,091</b>	8,739
Total revenue	<b>1,284,087</b>	1,373,664

Substantially all the activities of the Group are based in Hong Kong and below is a segment information by business segments:

**Year ended 31 December 2003**

	<b>Newspapers, magazines and other publications HK\$'000</b>	<b>Retailing HK\$'000</b>	<b>Investment properties HK\$'000</b>	<b>Video and film post- production HK\$'000</b>	<b>Entertainment and education services HK\$'000</b>	<b>Total HK\$'000</b>
Turnover	773,830	398,620	81,401	20,208	5,937	1,279,996
Segment results and operating profit	79,116	(668)	(32,965)	(2,301)	4,298	47,480
Share of profits less losses of						
– associates	3,524			457		3,981
– a jointly controlled entity	(4,048)					(4,048)
Profit before taxation						47,413
Taxation						(41,674)
Profit after taxation						5,739
Minority interests						(3,977)
Profit attributable to shareholders						1,762
Segment assets	1,195,582	65,953	647,923	29,613	2,437	1,941,508
Interests in associates	35,009	2,416	–	–	–	37,425
Interest in a jointly controlled entity	7,527	–	–	–	–	7,527
Total assets						1,986,460
Segment liabilities	(98,677)	(64,707)	(4,584)	(2,480)	(775)	(171,223)
Unallocated liabilities						(345,213)
Total liabilities						(516,436)
Capital expenditure	35,043	6,054	1,046	16,464	22	58,629
Depreciation	75,666	3,437	5	1,009	106	80,223
Amortisation	3,038	–	–	–	–	3,038
Impairment charge	780	–	–	–	–	780

## Year ended 31 December 2002

	Newspapers, magazines and other publications HK\$'000	Retailing HK\$'000	Investment properties HK\$'000 Note (a)	Video and film post- production HK\$'000	Entertainment and education services HK\$'000 Note (b)	(Restated) Total HK\$'000
Turnover	831,775	418,641	79,747	19,493	15,269	1,364,925
Segment results and operating profit	109,750	(1,609)	17,197	(3,761)	13,893	135,470
Share of profits less losses of						
– associates	5,077	–	–	(125)	–	4,952
– a joint controlled entity	(5,624)	–	–	–	–	(5,624)
Profit before taxation						134,798
Taxation						(22,654)
Profit after taxation						112,144
Minority interests						(3,378)
Profit attributable to shareholders						108,766
Segment assets	1,193,003	74,044	793,866	12,246	1,463	2,074,622
Interests in associates	35,053	–	–	6,822	–	41,875
Interest in a joint controlled entity	9,375	–	–	–	–	9,375
Total assets						2,125,872
Segment liabilities	(109,414)	(69,526)	(3,473)	(2,387)	(1,019)	(185,819)
Unallocated liabilities						(411,299)
Total liabilities						(597,118)
Capital expenditure	56,371	3,676	1,060	624	9	61,740
Depreciation	71,444	3,324	1,333	2,053	771	78,925
Amortisation	71	–	–	–	–	71

## Notes:

- (a) Included in operating profit is a receipt of HK\$15.9 million from an investment which was written off in prior years, and a provision of HK\$75 million for deficit in revaluation of the investment properties as at 31 December 2002.
- (b) The Group disposed of its education business in March 2002. Included in operating profit is a gain of HK\$11.2 million from the sale of the education business.

## 5. Profit from Operating Activities

Profit from operating activities is stated after charging and crediting:

	Group	
	2003 HK\$'000	2002 HK\$'000
<b>Charging</b>		
Operating lease rentals on land and buildings	61,007	75,846
Loss on disposal of fixed assets	5,438	646
Deficit on revaluation of investment properties	112,046	75,061
Auditors' remuneration	1,524	1,549
Depreciation on owned assets	80,223	78,925
Amortisation of intangible assets	3,038	71
Office relocation expenses	10,916	–
Staff costs (including directors' remuneration, as set out in note 7):		
Wages and salaries	345,165	398,210
Pension costs – defined contribution plans	17,967	18,534
Less: Forfeited contributions	(4,975)	(4,064)
Net pension costs – defined contribution plans	12,992	14,470
Pension costs – defined benefit plan	10,642	4,497
	368,799	417,177
<b>Crediting</b>		
Net rental income from investment properties	80,802	78,200
Net rental income from leasehold land and buildings	1,435	1,435

There were no material forfeited pension scheme contributions at the current year and prior period end to reduce contributions in future years.

## 6. Finance Costs

	Group	
	2003 HK\$'000	2002 HK\$'000
Interest on bank loans wholly repayable within two years (2002: three years)	5,194	1,097

## 7. Directors' Remuneration

	2003	2002
	HK\$'000	HK\$'000
Fees:		
Executive	–	–
Non-executive	400	992
Other emoluments:		
Salaries, allowances and benefits in kind	5,375	6,531
Retirement scheme contributions	75	85
Bonuses paid and payable	–	320
	5,850	7,928

The remuneration of the above Directors fell within the following bands:

	2003	2002
HK\$Nil – HK\$1,000,000	5	6
HK\$1,000,001 – HK\$1,500,000	1	–
HK\$2,000,001 – HK\$2,500,000	–	1
HK\$4,000,001 – HK\$4,500,000	1	–
HK\$4,500,001 – HK\$5,000,000	–	1
	<b>7</b>	<b>8</b>

Non-executive Directors volunteered to waive half of their annual directors' fees for the year ended 31 December 2003 in support of the Company's business which was affected by the Sars outbreak during the year. Save as aforesaid, there was no arrangement under which a Director waived or agreed to waive any remuneration in respect of the year.

Directors' fees paid or payable to Independent Non-executive Directors during the year totalled HK\$300,000 (2002: HK\$600,000). There were no other emoluments paid to Non-executive Directors during the year.

On 23 September 2003, options were granted to a Director of the Company to acquire 350,000 (2002: Nil) shares of par value HK\$0.10 each in the share capital of the Company at an exercise price of HK\$3.90 per share under the Company's share option scheme which was approved by shareholders on 27 October 1997 and amended with shareholders' approval on 6 November 2000 and further amended at the annual general meeting held on 29 May 2002. The options are exercisable from 23 September 2004 to 27 October 2007. The market value per share at the date of grant was HK\$3.90.

#### Five highest paid individuals

The five highest paid individuals during the year include one (2002: two) Director, details of whose remuneration is set out above. The details of the remuneration of the remaining four (2002: three) highest paid individuals are set out below:

	2003 HK\$'000	2002 HK\$'000
Salaries, allowances and benefits in kind	7,403	6,582
Retirement scheme contributions	204	472
Bonuses paid and payable	772	995
	<b>8,379</b>	<b>8,049</b>

The remuneration of the four (2002: three) highest paid individuals fell within the following bands:

	2003	2002
HK\$2,000,001 – HK\$2,500,000	4	2
HK\$3,000,001 – HK\$3,500,000	–	1
	<b>4</b>	<b>3</b>



## 8. Taxation

Hong Kong profits tax has been provided for at the rate of 17.5% (2002: 16%) on the estimated assessable profits for the year. In 2003, the government enacted a change in the profits tax rate from 16% to 17.5% for the fiscal year 2003/2004.

	Group	
	2003	2002
	HK\$'000	(Restated) HK\$'000
Company and subsidiaries:		
Hong Kong profits tax	34,427	26,235
Overseas taxation	231	–
Deferred taxation relating to the origination and reversal of temporary differences	(2,881)	(4,566)
Deferred taxation resulting from an increase in tax rate	8,538	–
	40,315	21,669
Share of taxation attributable to:		
Associates	1,337	985
Jointly controlled entity	22	–
	41,674	22,654
Taxation charges	41,674	22,654

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the taxation rate applicable to the places of operation of the Company and its subsidiaries as follows:

	Group	
	2003	2002
	HK\$'000	HK\$'000
Profit before taxation	47,413	134,798
Calculated at a taxation rate of 17.5% (2002: 16%)	8,297	21,568
Effect of different taxation rates in other countries	(1,195)	(5,116)
Temporary difference not recognised	1,643	693
Temporary difference recognised on undistributed profit in associates	248	22
Income not subject to taxation	(2,337)	(1,400)
Expenses not deductible for taxation purposes	24,516	13,614
Tax losses not recognised	5,600	2,909
Overprovision in prior year	(2,918)	(10,205)
Utilisation of previously unrecognised tax losses	(1,251)	(572)
Increase in opening net deferred tax liabilities resulting from an increase in tax rate	8,538	–
Withholding tax	231	–
Others	302	1,141
	41,674	22,654
Taxation charges	41,674	22,654

## 9. Profit Attributable to Shareholders

The profit of HK\$1,762,000 (2002 Restated: HK\$108,766,000) attributable to shareholders included no profit and loss (2002: profit of HK\$19,323,000) dealt with in the Company's own accounts.

## 10. Dividend Distributions

	Group and Company	
	2003	2002
	HK\$'000	HK\$'000
Interim dividend distribution, HK2 cents per share (2002: HK4 cents)	31,219	62,438
Proposed final dividend distribution, HK4 cents per share (2002: HK4 cents)	62,438	62,438
	93,657	124,876

## 11. Earnings per Share

The calculation of basic earnings per share is based on the profit for the year attributable to shareholders of HK\$1,762,000 (2002 Restated: HK\$108,766,000) and the weighted average of 1,560,945,596 (2002: 1,704,448,053) shares in issue during the year.

The diluted earnings per share for the year is not shown as there was no dilution effect.

## 12. Goodwill

Group	HK\$'000
Cost	
At 1 January 2003	610,033
Addition	1,670
At 31 December 2003	611,703
Accumulated amortisation and provision for impairment	
At 1 January 2003	610,033
Amortisation and provision for impairment	1,670
At 31 December 2003	611,703
Net book value	
At 31 December 2003	–
At 31 December 2002	–

## 13. Intangible Assets

Group	Publishing titles HK\$'000	Software costs HK\$'000	Assets in progress HK\$'000	Total HK\$'000
Cost				
At 1 January 2003	1,820,000	4,250	9,951	1,834,201
Additions	–	3,987	16,423	20,410
Reclassification	–	15,791	(15,791)	–
At 31 December 2003	1,820,000	24,028	10,583	1,854,611
Accumulated amortisation				
At 1 January 2003	1,820,000	71	–	1,820,071
Provided during the year	–	1,368	–	1,368
At 31 December 2003	1,820,000	1,439	–	1,821,439
Net book value				
At 31 December 2003	–	22,589	10,583	33,172
At 31 December 2002	–	4,179	9,951	14,130

## 14. Fixed Assets

Group	Investment properties HK\$'000	Leasehold land and buildings HK\$'000	Other fixed assets HK\$'000	Assets in progress HK\$'000	Total HK\$'000
Cost or valuation:					
At 1 January 2003	756,000	374,148	907,701	7,646	2,045,495
Additions	1,046	–	9,090	28,083	38,219
Reclassification	–	2,827	13,002	(15,829)	–
Acquisition of subsidiaries	–	–	183	–	183
Disposals	–	–	(16,977)	–	(16,977)
Disposal of a subsidiary	–	–	(3,782)	–	(3,782)
Revaluation deficit	(112,046)	–	–	–	(112,046)
At 31 December 2003	645,000	376,975	909,217	19,900	1,951,092
Accumulated depreciation:					
At 1 January 2003	–	66,839	471,181	–	538,020
Provided during the year	–	7,949	72,274	–	80,223
Acquisition of subsidiaries	–	–	37	–	37
Disposals	–	–	(10,937)	–	(10,937)
Disposal of a subsidiary	–	–	(3,599)	–	(3,599)
At 31 December 2003	–	74,788	528,956	–	603,744
Net book value:					
At 31 December 2003	645,000	302,187	380,261	19,900	1,347,348
At 31 December 2002	756,000	307,309	436,520	7,646	1,507,475
Analysis of cost and valuation:					
At cost – 2003	–	343,975	909,217	19,900	1,273,092
At valuation – 1990	–	33,000	–	–	33,000
– 2003	645,000	–	–	–	645,000
	645,000	376,975	909,217	19,900	1,951,092

Other fixed assets include plant and machinery, computer and office equipment and leasehold improvements.

Certain of the Group's leasehold land and buildings were revalued in 1990 by Knight Frank Kan & Baillieu, an independent professional valuer, at HK\$33,000,000, being their open market value based on their existing use. No subsequent revaluation was carried out as the Group has adopted the exemption provisions of Statement of Standard Accounting Practice No. 17 "Property, plant and equipment" issued by the Hong Kong Society of Accountants in 1995, of not making regular revaluations by class of those assets stated at revalued amounts based on revaluations which were reflected in prior year financial statements. Had such leasehold land and buildings been carried at cost less accumulated depreciation, the carrying value of such leasehold land and buildings would have been stated at approximately HK\$23,246,000 (2002: HK\$24,028,000).

The Group's investment properties and leasehold land and buildings are held under medium term leases in Hong Kong.

The investment properties comprise offices, a studio and car parking spaces. The offices situated at (i) 20/F and 21/F and car parking spaces Nos. 21, 22 and 23 on 4th Floor of Bank of America Tower at 12 Harcourt Road, Hong Kong; (ii) the lobby on the Ground Floor, a portion of the canopy on the 1st Floor level and the front portions of the 1st, 2nd and 3rd Floors of No. 1 Leighton Road and 9 advertising board spaces on the external wall, Yue King Building, 26-30 Canal Road West, 1-7 Leighton Road and 41-47 Morrison Hill Road, Wanchai, Hong Kong; and (iii) the Clear Water Bay TV Studio situated at Clear Water Bay Road, A Kung Wan, Hang Hau, New Territories, were valued by DTZ Debenham Tie Leung Limited, an independent professional valuer, on an open market value basis based on their existing use as at 31 December 2003.

**15. Interests in Subsidiaries**

	Company	
	2003 HK\$'000	2002 HK\$'000
Unlisted shares, at cost	—	—
Amounts due from subsidiaries	1,656,265	1,749,922
	<b>1,656,265</b>	<b>1,749,922</b>

The amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

Details of the principal subsidiaries are set out in note 30 to the financial statements.

**16. Interests in Associates and a Jointly Controlled Entity**

	Group	
	2003 HK\$'000	2002 HK\$'000
Associates		
Share of net assets other than goodwill:		
Shares listed overseas	35,879	31,485
Unlisted shares	2,725	3,732
	<b>38,604</b>	<b>35,217</b>
Amounts due (to)/from associates	(1,179)	6,658
	<b>37,425</b>	<b>41,875</b>
Market value of listed shares at the balance sheet date	92,911	71,166

	Group	
	2003 HK\$'000	2002 HK\$'000
Jointly controlled entity		
Share of net liabilities other than goodwill	(24,966)	(20,885)
Loans advanced	32,493	30,260
	<b>7,527</b>	<b>9,375</b>

The amounts due (to)/from associates and loans advanced to a jointly controlled entity are unsecured, interest-free and are not repayable within 12 months.

Details of the principal associates and a jointly controlled entity are set out in note 30 to the financial statements.

**17. Long-Term Investment Shares**

	Group	
	2003 HK\$'000	2002 HK\$'000
Listed equity shares, at fair value:		
Hong Kong	94,725	74,913
Philippines	2,395	2,130
	<b>97,120</b>	77,043
Unlisted equity shares, at fair value	<b>31,200</b>	51,480
	<b>128,320</b>	128,523
Market value of listed equity shares	<b>97,120</b>	77,043

**18. Inventories**

	Group	
	2003 HK\$'000	2002 HK\$'000
Raw materials	19,427	16,321
Work in progress	485	208
Finished goods	20,706	26,643
	<b>40,618</b>	43,172

At the balance sheet date, there was no inventory carried at its net realisable value (2002: Nil).

**19. Accounts Receivable**

The Group allows an average credit period of 7 to 90 days to its trade customers and an ageing analysis of trade receivables is as follows:

	Group			
	2003		2002	
	Balance HK\$'000	Percentage %	Balance HK\$'000	Percentage %
0 to 30 days	73,123	41.3	66,307	38.8
31 to 60 days	56,340	31.9	53,657	31.4
61 to 90 days	32,353	18.3	36,889	21.6
Over 90 days	15,056	8.5	14,246	8.2
Total	<b>176,872</b>	<b>100.0</b>	171,099	100.0
Less: Provision for bad and doubtful debts	<b>(14,690)</b>		(15,773)	
	<b>162,182</b>		155,326	

## 20. Accounts Payable and Accrued Liabilities

Included in accounts payable and accrued liabilities are the following trade payables:

	Group			
	2003 Balance HK\$'000	2003 Percentage %	2002 Balance HK\$'000	2002 Percentage %
0 to 30 days	40,616	55.7	94,412	77.5
31 to 60 days	19,097	26.2	5,767	4.7
61 to 90 days	7,761	10.7	9,611	7.9
Over 90 days	5,376	7.4	12,089	9.9
<b>Total</b>	<b>72,850</b>	<b>100.0</b>	<b>121,879</b>	<b>100.0</b>

## 21. Interest-Bearing Bank Loan, Unsecured

The bank loan will be wholly repayable within two years (2002: three years).

## 22. Deferred Taxation

Deferred taxation are calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5% (2002: 16%).

The movement on the deferred tax liabilities/(assets) account is as follows:

	Group	
	2003 HK\$'000	2002 (Restated) HK\$'000
At 1 January	91,248	95,922
Disposal of a subsidiary	–	(100)
Charge/(credit) for the year (Note 8)	5,657	(4,566)
Taxation credited to equity	–	(8)
<b>At 31 December</b>	<b>96,905</b>	<b>91,248</b>

The deferred taxation credited to equity during the year is as follows:

	Group	
	2003 HK\$'000	2002 (Restated) HK\$'000
Asset revaluation reserve (Note 25)	–	(8)

Deferred income tax assets are recognised for tax loss carry forwards to the extent that realisation of the related tax benefit through the future taxable profits is probable. The Group has unrecognised tax losses of HK\$189,960,000 (2002: HK\$175,462,000) to carry forward against future taxable income; the expiry dates of these tax losses are shown as follows:

	Group	
	2003 HK\$'000	2002 HK\$'000
Expiring within one year	–	–
Expiring in the second to fifth years	13,659	6,654
After the fifth years	176,301	168,808
	<b>189,960</b>	<b>175,462</b>

The movement in deferred tax assets and liabilities (prior to offsetting of balances within the same taxation jurisdiction) during the year is as follows:

Group Deferred tax liabilities	Accelerated tax depreciation		Others		Total	
	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January	93,454	93,091	157	5,061	93,611	98,152
Charged/(credited) to profit and loss account	5,323	371	457	(4,804)	5,780	(4,433)
Credited to equity	–	(8)	–	–	–	(8)
Disposal of a subsidiary	–	–	–	(100)	–	(100)
At 31 December	98,777	93,454	614	157	99,391	93,611

Group Deferred tax assets	Provisions		Tax loss		Others		Total	
	2003	2002	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January	(1,921)	(1,866)	(441)	(364)	(1)	–	(2,363)	(2,230)
Charged/(credited) to profit and loss account	(61)	(55)	28	(77)	(90)	(1)	(123)	(133)
At 31 December	(1,982)	(1,921)	(413)	(441)	(91)	(1)	(2,486)	(2,363)

	Group	
	2003	2002
	HK\$'000	HK\$'000
Deferred tax liabilities	99,391	93,611
Deferred tax assets	(2,486)	(2,363)
	96,905	91,248

### 23. Employee Retirement Schemes

The Group continues to operate a DB scheme, a DC scheme and a Top-up scheme. These schemes are exempted recognised occupational retirement schemes under the MPF Ordinance. The assets of these schemes are held separately from those of the Group in two administered trust funds. Schemes assets are managed by independent professional investment managers. The Group also operates a MPF which is a master trust scheme established under trust arrangement.

#### (a) Defined benefit scheme

The defined benefit scheme is a final salary defined benefit plan.

Pension costs are assessed using the projected unit credit method. The pension costs are charged to the profit and loss account so as to spread the regular cost over the service lives of employees. A full valuation based on the projected unit credit method has been carried out by Watson Wyatt Hong Kong Limited, an independent qualified actuary, and the pension costs are charged to the profit and loss account in accordance with their advice.

	Group	
	2003	2002
	HK\$'000	HK\$'000
Defined benefit plan's assets	27,070	37,858

The amounts recognised in the balance sheet are determined as follows:

	Group	
	2003 HK\$'000	2002 HK\$'000
Fair value of plan assets	275,382	243,711
Present value of funded obligations	(206,639)	(221,246)
	<b>68,743</b>	22,465
Unrecognised actuarial (gains)/losses	<b>(41,673)</b>	15,393
	<b>27,070</b>	37,858
Asset in the balance sheet	<b>27,070</b>	37,858

The limit of net asset to be recognised is disclosed as follows:

	Group	
	2003 HK\$'000	2002 HK\$'000
Cumulative unrecognised net actuarial losses	–	15,393
Present value of available future refunds and reductions in future contributions	68,743	22,465
	<b>68,743</b>	37,858
Limit	<b>68,743</b>	37,858
	<b>27,070</b>	37,858
Net asset recognised in the balance sheet	<b>27,070</b>	37,858
	–	–
Reduction of net asset due to the above limit	–	–

The amounts recognised in the profit and loss account were as follows:

	Group	
	2003 HK\$'000	2002 HK\$'000
Current service cost	10,306	13,813
Interest cost	5,454	9,412
Expected return on plan assets	(8,820)	(18,728)
Net actuarial losses recognised	<b>3,848</b>	–
	<b>10,788</b>	4,497
Less: amount capitalised in intangible assets	(146)	–
	<b>10,642</b>	4,497
Total, included in staff costs (Note (5))	<b>10,642</b>	4,497

The actual return on plan assets was HK\$61,031,000 (2002 : loss of HK\$27,161,000).

Movement in the asset recognised in the balance sheet:

	Group	
	2003 HK\$'000	2002 HK\$'000
At 1 January	37,858	42,355
Total expenses charged to profit and loss account – as shown above	(10,642)	(4,497)
Amount capitalised in intangible assets	(146)	–
	<b>27,070</b>	37,858
At 31 December	<b>27,070</b>	37,858



The principal actuarial assumptions used were as follows:

	2003 %	2002 %
Discount rate	2.80	4.25
Expected rate of return on plan assets	4.00	7.00
Expected rate of future salary increases	–	2.00

**(b) Top-up scheme and MPF**

The Group makes regular contributions of 10% of the employees' monthly basic salary (which is subject to a cap of HK\$50,000) to the MPF and Top-up Scheme. Out of the 10% contribution, 5% of the employees' relevant income (which is capped at HK\$20,000) is made to the MPF Scheme and the balance to the Top-up Scheme.

**(c) Defined contribution scheme**

The contributions to the defined contribution pension scheme are currently at 10-15% of the employees' monthly salaries.

**24. Share Capital**

	Group and Company	
	2003	2002
	HK\$'000	HK\$'000
Authorised:		
5,000,000,000 shares of HK\$0.10 each	500,000	500,000
Issued and fully paid:		
1,560,945,596 (2002: 1,560,945,596) shares of HK\$0.10 each	156,095	156,095

On 3 September 2002, the Company announced a conditional voluntary cash offer to repurchase up to 173,438,400 shares at an offer price of HK\$3.6 in cash per share. The proposed offer was approved by an ordinary resolution passed at the Special General Meeting of the Company held on 11 October 2002. On 28 October 2002, the Company announced its acceptance of a total of 173,438,400 shares at HK\$3.6 per share under the offer for a total consideration of approximately HK\$624,378,000 before expenses.

The Company has a share option scheme (the "Scheme") which was approved by shareholders on 27 October 1997 (the "Effective Date") and was amended with shareholders' approval on 6 November 2000 and further amended at the annual general meeting held on 29 May 2002 in conformity with the amended Chapter 17 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

Under the Scheme, the Board of Directors of the Company may grant options to subscribe for shares of the Company to any full-time employees or Executive Directors of the Company or any of its subsidiaries (the "Executives"). No consideration is required to be paid by the Executives upon acceptance of the options. No option may be exercised earlier than one year after it has been granted or later than ten years after the Effective Date of the Scheme, i.e. 27 October 2007.

Movements in the number of share options outstanding during the year are as follows:

	2003 No. of shares in respect of options granted	2002 No. of shares in respect of options granted
Outstanding at 1 January	10,108,500	11,880,500
Granted during the year (Note (a))	2,950,000	–
Exercised during the year	–	–
Lapsed during the year	(2,837,500)	(1,772,000)
Outstanding at 31 December (Note (b))	10,221,000	10,108,500

No share options were cancelled during the year (2002: nil).

Note (a)

Details of share options granted during the year were as follows:

	Date of grant	Exercisable period	Exercise price per share HK\$	No. of shares in respect of options granted
Directors	23/09/2003	23/09/2004 - 27/10/2007	3.90	350,000
Other employees	23/09/2003	23/09/2004 - 27/10/2007	3.90	2,600,000
				2,950,000

Note (b)

Share options outstanding at the end of the year have the following terms:

	Date of grant	Exercisable period	Exercise price per share HK\$	2003 No. of shares in respect of options granted	2002 No. of shares in respect of options granted
Directors	23/09/2003	23/09/2004 – 27/10/2007	3.90	350,000	–
Other employees	02/08/1999	02/08/2000 – 27/10/2007	5.00	1,352,500	1,752,000
	11/01/2000	11/01/2001 – 27/10/2007	5.51	1,078,500	1,991,500
	20/04/2000	20/04/2001 – 27/10/2007	6.05	3,995,000	5,320,000
	28/06/2001	28/06/2002 – 27/10/2007	4.95	845,000	1,045,000
	23/09/2003	23/09/2004 – 27/10/2007	3.90	2,600,000	–
				10,221,000	10,108,500

## 25. Reserves

Group	Share premium HK\$'000	Contributed surplus HK\$'000	Investment revaluation reserve HK\$'000	Asset revaluation reserve HK\$'000	Translation reserve HK\$'000	Retained profits/(losses) HK\$'000	Total HK\$'000
At 1 January 2002							
As previously stated	1,151,275	1,925,381	27,337	1,503	(38,981)	(1,089,878)	1,976,637
Effect of adopting SSAP 12 (revised) (note 3(n))	–	–	–	(186)	–	(14,532)	(14,718)
As restated	1,151,275	1,925,381	27,337	1,317	(38,981)	(1,104,410)	1,961,919
Share premium reduction (Note (a))	(1,105,290)	–	–	–	–	1,105,290	–
Repurchase of shares	(5,014)	(607,034)	–	–	–	–	(612,048)
Change in fair values of long-term investment shares	–	–	(23,091)	–	–	–	(23,091)
Revaluation reserve released on disposal	–	–	6	–	–	–	6
Exchange differences on consolidation	–	–	–	–	(463)	–	(463)
Deferred taxation directly credited to reserve (note 22)	–	–	–	8	–	–	8
Profit for the year	–	–	–	–	–	108,766	108,766
2002 interim dividend distribution	–	(62,438)	–	–	–	–	(62,438)
At 31 December 2002 (Note (b))	40,971	1,255,909	4,252	1,325	(39,444)	109,646	1,372,659

Notes:

- (a) In 2002, the share premium account was reduced by an amount of HK\$1,105,290,000 to enable the Company to eliminate the accumulated losses which were resulted from the amortisation of intangible assets and goodwill on acquisition following the adoption of certain new SSAPs.
- (b) The final dividend distribution of HK\$62,438,000 for the year ended 31 December 2002 was paid out of the Company's contributed surplus.

Group	Share premium HK\$'000	Contributed surplus HK\$'000	Investment revaluation reserve HK\$'000	Asset revaluation reserve HK\$'000 (Note 2(a)(ii))	Translation reserve HK\$'000	Retained profits HK\$'000 (Note 2(a)(i))	Total HK\$'000
At 1 January 2003							
As previously stated	40,971	1,255,909	4,252	1,503	(39,444)	117,959	1,381,150
Effect of adopting SSAP 12 (revised) (note 3(n))	–	–	–	(178)	–	(8,313)	(8,491)
As restated	40,971	1,255,909	4,252	1,325	(39,444)	109,646	1,372,659
Change in fair values of long-term investment shares	–	–	29,796	–	–	–	29,796
Revaluation reserve released on disposal	–	–	(1,212)	–	–	–	(1,212)
Translation reserve released on disposal	–	–	–	–	2,165	–	2,165
Exchange differences on consolidation	–	–	–	–	2,416	–	2,416
Profit for the year	–	–	–	–	–	1,762	1,762
2002 final dividend distribution	–	(62,438)	–	–	–	–	(62,438)
2003 interim dividend distribution	–	(31,219)	–	–	–	–	(31,219)
At 31 December 2003 (Note (a))	40,971	1,162,252	32,836	1,325	(34,863)	111,408	1,313,929

Note:

(a) The proposed final dividend distribution of HK\$62,438,000 for the year ended 31 December 2003 is to be paid out of the Company's contributed surplus.

Company	Share premium HK\$'000	Contributed surplus HK\$'000	Retained profits/ (losses) HK\$'000	Total HK\$'000
At 1 January 2002				
	1,151,275	2,203,259	(1,105,290)	2,249,244
Share premium reduction	(1,105,290)	–	1,105,290	–
Repurchase of shares	(5,014)	(607,034)	–	(612,048)
Profit for the year	–	–	19,323	19,323
2002 interim dividend distribution	–	(62,438)	–	(62,438)
At 31 December 2002	40,971	1,533,787	19,323	1,594,081

Company	Share premium HK\$'000	Contributed surplus HK\$'000	Retained profit HK\$'000	Total HK\$'000
At 1 January 2003	40,971	1,533,787	19,323	1,594,081
2002 final dividend distribution	–	(62,438)	–	(62,438)
2003 interim dividend distribution	–	(31,219)	–	(31,219)
At 31 December 2003	40,971	1,440,130	19,323	1,500,424

	Group	
	2003	2002 (Restated)
	HK\$'000	HK\$'000
Retained profits/(losses) attributable to:		
Company and subsidiaries	142,049	142,624
Associates	(1,043)	(7,450)
Jointly controlled entity	(29,598)	(25,528)
	<b>111,408</b>	109,646

The contributed surplus of the Group represents the excess of the nominal value of the shares of subsidiaries acquired over the nominal value of the Company's shares issued in exchange therefor during the Group reorganisation in 1990 and the dividend contributions.

The contributed surplus of the Company arose as a result of the Group reorganisation in 1990 and represents the difference between the nominal value of the Company's shares so allotted and the consolidated net asset value of the acquired subsidiaries and associate. Under Bermudan law, the contributed surplus is distributable to shareholders under certain circumstances.

In addition, the Company's share premium of HK\$40,971,000 (2002: HK\$40,971,000) can be distributed as fully paid-up bonus shares or applied towards eliminating the retained losses of the Company.

## 26. Operating Lease Commitments

Future aggregate commitments for the forthcoming years under non-cancelable operating leases in respect of land and buildings at the balance sheet date are set out below:

	Group	
	2003	2002
	HK\$'000	HK\$'000
Expiring within one year	44,944	59,659
Expiring in the second to fifth years, inclusive	55,703	70,694
	<b>100,647</b>	130,353

The operating lease rentals of certain retail outlets are based on the higher of a minimum guaranteed rental or a sales level based rental. The minimum guaranteed rental has been used to arrive at the above commitments.

**27. Capital Commitments**

	Group	
	2003	2002
	HK\$'000	HK\$'000
Capital commitments for property, plant and equipment:		
Contracted, but not provided for	22,166	16,598
Authorised, but not contracted for	36,466	62,415
	<b>58,632</b>	<b>79,013</b>

**28. Future Operating Lease Arrangements**

As at 31 December 2003, the Group had future aggregate minimum lease receipts under non-cancelable operating leases in respect of land and buildings as follows:

	Group	
	2003	2002
	HK\$'000	HK\$'000
Not later than one year	14,881	78,692
Later than one year but not later than five years	7,216	18,454
	<b>22,097</b>	<b>97,146</b>

**29. Notes to the Consolidated Cash Flow Statement****(a) Reconciliation of operating profit to net cash inflow from operations**

	Group	
	2003	2002
	HK\$'000	HK\$'000
Operating profit	47,480	135,470
Loss on disposal of long-term investment shares	2,267	–
Deficit on revaluation of investment properties	112,046	75,061
Depreciation and amortisation	83,261	78,996
Interest income	(1,543)	(4,958)
Interest expenses	5,194	1,097
Dividend income from listed investments	(1,427)	(2,462)
Loss on disposal of fixed assets	5,438	646
Provision for asset impairment	780	–
Pension costs	10,642	4,497
Loss on disposal of investments in associates	2,612	–
Gain on disposal of subsidiaries	(600)	(25,136)
Increase/decrease in amounts due to/from associates	399	699
Increase in loan advanced to a jointly controlled entity	(2,233)	(4,003)
(Increase)/ decrease in inventories	(3,504)	15,916
(Increase)/ decrease in accounts receivable	(7,257)	2,802
Decrease in prepayments, deposits and other receivables	4,020	4,025
(Decrease)/increase in accounts payable and accrued liabilities	(14,277)	4,742
Increase in subscriptions in advance	6,646	3,410
Net cash inflow from operations	<b>249,944</b>	<b>290,802</b>

## (b) Analysis of changes in financing during the year

Group	Interest-bearing bank loan HK\$'000	Share capital (including share premium) HK\$'000	Minority interests HK\$'000	Contributed surplus HK\$'000
Balance at 1 January 2002				
As previously reported	–	1,324,713	10,676	1,925,381
Effect of adopting SSAP 12 (revised) (note 3(n))	–	–	2	–
As restated	–	1,324,713	10,678	1,925,381
Non cash movement				
Share of profit	–	–	3,378	–
Disposal of subsidiaries	–	–	(2,113)	–
Liquidation of a subsidiary	–	–	18	–
Share premium reduction	–	(1,105,290)	–	–
Cash movement				
Purchases of additional interest in subsidiaries	–	–	(269)	–
Dividend paid to minority shareholders in subsidiary	–	–	(3,000)	–
Drawdown of bank loan	310,000	–	–	–
Repurchase of shares	–	(22,357)	–	(607,034)
2002 interim dividend distribution	–	–	–	(62,438)
Balance at 31 December 2002	310,000	197,066	8,692	1,255,909
Balance at 1 January 2003				
As previously reported	310,000	197,066	8,679	1,255,909
Effect of adopting SSAP 12 (revised) (note 3(n))	–	–	13	–
As restated	310,000	197,066	8,692	1,255,909
Non cash movement				
Share of profit	–	–	3,977	–
Acquisition of a subsidiary	–	–	8	–
Cash movement				
Dividend paid to minority shareholders in subsidiary	–	–	(3,000)	–
Repayment of bank loan	(80,000)	–	–	–
2002 final dividend distribution	–	–	–	(62,438)
2003 interim dividend distribution	–	–	–	(31,219)
Balance at 31 December 2003	230,000	197,066	9,677	1,162,252

**(c) Disposal of subsidiaries**

	Group	
	2003 HK\$'000	2002 HK\$'000
Net assets disposed of:		
Fixed assets	183	4,620
Inventories	6,058	83
Accounts receivable	401	110
Prepayment, deposit and other receivables	2,132	4,902
Bank balances and deposits	6	1,660
Accounts and other payable	(6,323)	(2,900)
Taxation payable	–	(22)
Deferred taxation	–	(100)
Minority interests	–	(2,113)
	<b>2,457</b>	<b>6,240</b>
Satisfied by cash	<b>3,057</b>	<b>33,384</b>

Analysis of the net cash inflow in respect of the disposal of subsidiaries.

	Group	
	2003 HK\$'000	2002 HK\$'000
Cash consideration	3,057	33,384
Cash and bank balances disposed of	(6)	(1,660)
Net cash inflow in respect of the disposal of subsidiaries	<b>3,051</b>	<b>31,724</b>

**(d) Purchase of a subsidiary**

During the year, the Group acquired 75% shareholding in a subsidiary with net asset value of HK\$28,000. The cash consideration amounted to HK\$1,691,000 and the cash balance acquired was HK\$4,000.

### 30. Subsidiaries, Associates and A Jointly Controlled Entity

Particulars of the Company's principal subsidiaries and the Group's principal associates and a jointly controlled entity at 31 December 2003 are as follows:

#### Subsidiaries

Company	Place of incorporation/ registration/ and operations (Kind of legal entity)	Nominal value of issued/ registered share capital	Proportion held		Nature of business
			Direct	Indirect	
Capital Artists Limited	Hong Kong	Ordinary HK\$44,394,500	–	100%	Music publishing
Coastline International Limited	The Commonwealth of The Bahamas	Ordinary US\$2	–	100%	Property holding
Highlight Trading (HK) Limited	Hong Kong	Ordinary HK\$100,000	–	100%	Trading of health products
Lyton Investment Limited	The Commonwealth of The Bahamas	Ordinary US\$2	–	100%	Property holding
Macheer Properties Limited	British Virgin Islands	Ordinary US\$1	–	100%	Property holding
Markland Investments Limited	Hong Kong	Ordinary HK\$2	–	100%	Investment holding
SCMP (1994) Limited	Hong Kong	Ordinary HK\$2	100%	–	Investment holding
SCMP Book Publishing Limited	Hong Kong	Ordinary HK\$2,000,000	–	100%	Book publishing
SCMP Hearst Publications Limited	Hong Kong	Ordinary HK\$10,000	–	70%	Magazine publishing
SCMP Magazines Publishing Limited	Hong Kong	Ordinary HK\$10,000	–	100%	Provision of pre-press services
SCMP Retailing (HK) Limited	Hong Kong	Ordinary HK\$500,000	–	100%	Operation of retail outlets
SCMP.com Limited	Hong Kong	Ordinary HK\$2	100%	–	Internet-related businesses
SCMP.com Holdings Limited	British Virgin Islands	Ordinary US\$1	100%	–	Investment holding
Shanghai Nan Hong Information Services Co., Ltd. # (formerly known as Shanghai Strongnet Co., Ltd.)	The People's Republic of China (Equity joint-venture)	Registered capital US\$200,000	–	97%	Recruiting and human resources internet services
South China Morning Post Publishers Limited	Hong Kong	Ordinary HK\$201,000,000	–	100%	Newspaper and magazine publishing
South China Morning Post (S) Pte Ltd	Singapore	Ordinary S\$3	–	100%	Advertising agent
Sunny Bright Development Limited	Hong Kong	Ordinary HK\$2	–	100%	Property holding



Company	Place of incorporation/ registration and operations (Kind of legal entity)	Nominal value of issued/ registered share capital	Proportion held		Nature of business
			Direct	Indirect	
Sunny Success Development Limited	Hong Kong	Ordinary HK\$2	–	100%	Property holding
Video-Film Productions Limited	Hong Kong	Ordinary HK\$12,050	–	83%	Video and film post-production
West Side Assets Limited	British Virgin Islands	Ordinary US\$1	–	100%	Investment holding

### Associates

Company	Place of incorporation and operations	Percentage of equity attributable to the Group	Nature of business
Dymocks Franchise Systems (China) Limited #	Hong Kong	45%	Bookshop operation
The Post Publishing Public Company Limited #	Thailand	20.3%	Newspaper and magazine publishing

# not audited by PricewaterhouseCoopers Hong Kong or other PricewaterhouseCoopers International member firms

### A jointly controlled entity

Company	Place of incorporation and operations	Percentage of equity attributable to the Group	Nature of business
SCMP Haymarket Publishing Limited	Hong Kong	51%	Magazine publishing

The above table lists the subsidiaries of the Company, associates and a jointly controlled entity of the Group which, in the opinion of the Directors, principally affected the results of the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries and associates would, in the opinion of the Directors, result in particulars of excessive length.

### 31. Related Party Transactions

Neither the Group nor the Company had any significant related party transactions. Details of the Group's related party transactions are disclosed in the Directors' Report.

### 32. Subsequent Event

On 2 March 2004, South China Morning Post Publishers Limited, TVE International Limited and SCMP Publications Limited (all being wholly owned subsidiaries of the Company) and SCMP Haymarket Publishing Limited (a jointly controlled entity in which the Company has a 51% interest) entered into a termination and release agreement with Haymarket Group Limited, Haymarket Publishing Services Limited, Haymarket Publishing (Hong Kong) Limited and Media & Marketing Limited (collectively "Haymarket Group"), pursuant to which the parties terminated the SCMP/Haymarket Publishing joint venture and distributed related assets in the joint venture to respective parties respectively. The overall loss on this transaction to the Group is estimated to be approximately HK\$1 million.

### 33. Approval of the Financial Statements

The financial statements were approved by the Board of Directors on 30 March 2004.